

## NOTICE UNDER SECTION 23(2) OF THE GAS ACT 1986

The Gas and Electricity Markets Authority (the Authority) hereby gives notice pursuant to section 23(2) of the Gas Act 1986 (the Act) as follows:

1. The Authority proposes to modify the gas transporter licence held by National Grid Gas (NGG) plc granted or treated as granted under section 7 of the Act by amending Special Condition 11F: Gas conveyed to Independent Systems.
2. The Authority proposes to make this licence modification to allow NGG to recover operational expenditure (opex) in relation to the supply of Liquefied Natural Gas (LNG) to four towns in Scotland which are not on the gas network. These towns are called Statutory Independent Undertakings (SIUs). Scotia Gas Networks (SGN) has an obligation to supply these towns with gas and is allowed to recover its revenue via NGG and the charges it imposes on customers across Great Britain.

In our Final Proposals for the previous gas distribution price control (GDPCR1) we said we would allow SGN to recover efficient costs in relation to the SIUs. After the Glenmavis LNG facility in Scotland closed, SGN incurred additional costs in securing supplies of LNG from the Avonmouth facility near Bristol for the winter of 2012/13. SGN requested additional costs of £5.2m (2009/10 prices) which we considered to be efficient. These costs include additional transportation costs and booking costs for procuring LNG from Avonmouth.

3. The effect of the proposed modification is to allow NGG to recover opex of **£5.781m** (£5.2m plus financing costs) in 2015/16. The recovered costs can then be passed to SGN in accordance with NGG's licence.
4. A copy of the proposed modification(s) and other documents referred to in this notice are available on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).
5. Any representations with respect to the proposed licence modifications must be made on or before 10 July 2014 to: Rhianne Ogilvie, Office of Gas and Electricity Markets, 9 Millbank, London, SW1P 3GE or by email to [rhianne.ogilvie@ofgem.gov.uk](mailto:rhianne.ogilvie@ofgem.gov.uk).
6. All responses will normally be published on Ofgem's website. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website.
7. If the Authority decides to make the proposed modification it will take effect not less than 56 days after the decision is published.

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**Andrew Burgess**  
**Associate Partner, Transmission and Distribution Policy**  
**Duly authorised on behalf of the Gas and Electricity Markets Authority**

**12 June 2014**

**ANNEX 1 to NOTICE UNDER SECTION 23(2) OF THE GAS ACT 1986: PROPOSED MODIFICATION OF SPECIAL CONDITION 11F ‘GAS CONVEYED TO INDEPENDENT SYSTEMS’ TO THE GAS TRANSPORTER LICENCE OF NATIONAL GRID GAS PLC**

**Special Condition 11F: Gas conveyed to Independent Systems**

**Introduction**

11F.1 This condition comes into force and has effect in this Licence in accordance with the provisions of Part A below.

11F.2 The purpose of this condition is to put in place a framework that will provide for the continuation of the cross-subsidy arrangements that were in force under this Licence at 31 March 2013 (“the arrangements”) with respect to Independent Systems in the event that the Secretary of State issues a new direction to that effect.

11F.3 The framework requires the Licensee to recover amounts from Gas Shippers and then pay those amounts to DN Operators and Relevant Shippers in order to facilitate the continuation of the arrangements.

**Part A: Relevant directions with respect to this condition**

11F.4 The framework described above applies with respect to the Licensee from the date on which the Secretary of State has issued a direction requiring the Licensee to do all such things under this condition as are necessary to secure the continuation of the arrangements.

11F.5 On or at any time after the date of any direction under paragraph 11F.4, the Authority may bring this condition into force in this Licence by issuing a direction for that purpose to the Licensee.

11F.6 A direction under paragraph 11F.5 may give effect to different parts of this condition in such manner as is specified in the direction and at such different times as may be so specified or are to be determined in accordance with its provisions.

**Part B: Requirements relating to the Bulk Price Differential**

11F.7 The Licensee must, subject to it having received all the information it requires from DN Operators to enable it to do so, by 30 April in each Formula Year and in respect of each Independent System:

- (a) make a reasonable estimate of the Bulk Price Differential for that Formula Year (BPDE<sub>t</sub>); and

- (b) calculate, in each Formula Year commencing on and after 1 April 2014, any adjustment (whether of a positive or negative amount) (BPDADJ<sub>t</sub>) in Formula Year t which relates to the difference between:
- (i) its estimate of the Bulk Price Differential for the preceding Formula Year (BPDE<sub>t-1</sub>); and
  - (ii) the actual amount of the Bulk Price Differential in that preceding Formula Year (BPDA<sub>t-1</sub>),

in accordance with the following formula:

$$\text{BPDADJ}_t = \text{BPDA}_{t-1} - \text{BPDE}_{t-1}.$$

For the avoidance of doubt, the Licensee must calculate the value of BPDADJ<sub>t</sub> for the Formula Year commencing on 1 April 2013 in accordance with that term as it was in force in this Licence as at 31 March 2013.

11F.8 The Licensee must, in respect of each Independent System, pay to the Relevant Shipper a proportionate amount of the sum of the amounts calculated pursuant to paragraph 11F.7 (BPDE<sub>t</sub> + BPDADJ<sub>t</sub>) on a quarterly basis (or at such other intervals of time as may be agreed with the Relevant Shipper) during the Formula Year in which the calculation in paragraph 11F.7(b) was required to be made.

**Part C: Requirements relating to Distribution Network additional costs**

11F.9 The Licensee must pay to the relevant DN Operator the amount that is applicable to that operator by virtue of Table 1 below (denoted by either the term SGNACP or the term WWUACP, as the case may be) in respect of the additional costs of serving the customers connected to those Independent Systems operated by that DN Operator (“additional costs payments”), subject to such adjustment as may be necessary by virtue of paragraph 11F.10.

11F.10 The additional costs payments must, prior to payment, be adjusted to take account (in the form of either the term ACPS or the term ACPW, as the case may be) the price index adjustment factor in Formula Year t as follows:

$$\text{ACPS}_t = \text{SGNACP}_t \times \text{RPIF}_t$$

or

$$\text{ACPW}_t = \text{WWUACP}_t \times \text{RPIF}_t$$

where:

RPIF<sub>t</sub> has the value given to it by Part D of Special Condition 2A (Restriction of NTS Transportation Owner Revenue).

**Table 1: Transportation charges (£m, 2009/10 price levels)**

Licensee / Formula Year	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Scotland Gas Networks plc (SGNACP <sub>t</sub> )	-	23.306	<del>11.445</del> 17.226	11.468	11.491	11.514	11.537	11.561
Wales & West Utilities Limited (WWUACP <sub>t</sub> )	-	0.204	0.100	0.100	0.100	0.100	0.100	0.100

11F.11 The Licensee must pay to the relevant DN Operator a proportionate amount of the full amount represented by the term ACPS or ACPW (as the case may be) for the relevant Formula Year on a quarterly basis during that year or at such other intervals of time as may be agreed with the DN Operator to whom the payment is to be made.

**Part D: Recovery and reporting of costs by the Licensee**

11F.12 The Licensee must use reasonable endeavours to recover an amount equal to the total amount represented by:

- (a) the sum of the amounts calculated pursuant to paragraph 11F.7 (BPDE<sub>t</sub> + BPDADJ<sub>t</sub>); and
- (b) the payments made to the relevant DN Operators under paragraph 11F.11 (ACPS<sub>t</sub> + ACPW<sub>t</sub>),

from Gas Shippers in the relevant Formula Year to which such amounts or payments (as the case may be) relate.

11F.13 For the purposes of Special Condition 2B (Calculation of allowed pass-through items) the term IS<sub>t</sub> will be calculated as:

$$IS_t = BPDE_t + BPDADJ_t + ACPS_t + ACPW_t$$

11F.14 The Licensee must by 31 July in each relevant Formula Year submit to the Authority a statement that sets out:

- (a) each of the Bulk Price Differential payments made by the Licensee to Relevant Shippers in the previous Formula Year pursuant to paragraph 11F.8; and

- (b) each of the payments made by the Licensee to DN Operators in the previous Formula Year pursuant to paragraph 11F.11.

11F.15 The statement submitted under paragraph 11F.14 must be in such form and provide such detail as the Authority may reasonably require.

### **Part E: Interpretation**

11F. 16 For the purposes of this condition, the following definitions apply:

**Bulk Price Differential** means the volume of LPG conveyed to consumers who are connected to each relevant Independent System in the relevant Formula Year, multiplied by the difference between:

- (a) the reasonable estimate (made by the Licensee) of the actual delivered price of LPG supplied to consumers connected to the relevant Independent System; and
- (b) the average price of gas consisting principally of methane supplied to large industrial customers in Great Britain;

**Relevant Shipper** has the meaning given to the term “relevant shipper” in Standard Special Condition A3, except that, for the purposes of this condition only, means a Gas Shipper that has made arrangements with the DN Operator that operates the LDZ in which that Independent System is situated under which LNG or LPG is to be transported to consumers at the premises.